A Fresh Look at the Greek Factoring Market

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Export Factoring in Greece: Current Developments and Future Prospects

With so much focus on the state of the Greek economy, Yanos Nakatsiadis Senior Business Development Manager at Piraeus Factoring S.A. together with Llias Lekkos Chief Economist of Pireaus Group and Athanasios Dagalidis Senior Economist at Piraeus Bank, have collaborated to produce a study which provides a fresh look at export factoring in Greece.

Of all factoring products, export factoring enjoys outstanding growth at an international level, (mean annual growth 30.5 per cent in the last decade), due to the increase in international trade and escalating credit risk. Europe is the largest market since it accounts for 70 per cent of international factoring (export-import). However, in recent years, there has been an impressive growth in international factoring in Asia (mainly China).

Export factoring services are offered by all Greek factors, although 80 per cent of the export factoring market is dominated by just 3 market players. Similarly there is a geographic concentration with 82.7 per cent of total export factoring turnover destined for just four countries (51.6 per cent in Germany alone). Both the short and long-term prospects of the sector are positive. Reinforcing the facts that growth within the Greek factoring market includes a substantial volume of international trade amongst Greek SMEs that have a need to seek continuous growth in their export activities and that their exists positive demand in international markets for Greek products.

Legal Structure

The primary legislation regulating the establishment, supervision and operation of factoring companies in Greece is law 1905/1990 “for the factoring contract and other provisions” as modified by subsequent additional national legislation and acts of the Governor of the Bank of Greece. According to the current legislation, the business of factoring may be performed only by banks (having a specialized factoring division) or by bank subsidiaries (established for the exclusive purpose of selling factoring).

For statistical purposes factoring comes under the classification of financial intermediation and according to the classification of the NCAE Rev.2 in the Sub: 64.99 other financial service activities, except insurance and pension funds (or 65.23 by NACE Rev.1.1 and 64.99 in ISIC Rev.4).

Types of export factoring

The predominant forms of export factoring are direct export factoring where the factor deals directly with the importers and the two-factor system, where

there is cooperation between two factors – the export and import factor (in the destination country of the seller's products).
Depending on whether the credit risk is assumed by the factor, export factoring is divided into (a) non (or without) recourse factoring, where the factor takes the credit risk against the buyer's inability to repay its obligations and (b) with recourse factoring, where credit risk remains with the Supplier.

In 2011, 78.6 per cent of the Greek export factoring was launched through the two-factor system and as non- recourse export factoring.

Growth of the Industry.

After 1990, following the establishment of the relative institutional framework, some banks began to offer products which were based on the logic of factoring, but this was not factoring in the modern sense. Factoring in Greece began to develop more significantly in 1994 with the creation of the first factoring company which offered full factoring services. During the period 1996-1999, the average annual growth rate of the factoring business was impressive, exceeding 45 per cent. Then during 1999-2005 the growth rate dropped to 31 per cent and in the latest period (2006-2011) growth was recorded at 21.8 per cent, a rate that can be regarded as very satisfactory given the deterioration of the Greek financial market. A key feature of this last period is the accelerating growth rate of export factoring which was 37.2 per cent compared with 20.8 per cent in the domestic factoring market.

The Greek factoring market is represented by five independent companies which are bank subsidiaries and five bank factoring divisions. In addition, export factoring services to major Greek export companies are also provided through foreign banks, some of which may also have a physical presence in Greek territory. Since the introduction of factoring in 1991, there have been significant changes in market share and an increased concentration of products. Some commercial banks attempted to grow their business through their branch network; this did not prove to be successful due to either internal competition with traditional banking products or to organizational difficulties.

In recent years, this situation has changed and synergies have been created which are a result of both the special circumstances prevailing in the Greek market and the accounting and tax treatment of factoring. In export factoring, concentration is very high since the top three companies control 77 per cent of the market (EFG Factors 37 per cent, HSBC 21.4 per cent, ABC Factors 18.9 per cent and 'others' 23 per cent). At the same time four countries receive 82.7 per cent of export factoring turnover: (Germany 51.6 per cent, Italy 13.3 per cent, France 9.2 per cent and Great Britain 8.6 per cent); a disproportionately high percentage, considering the total share of Greek exports to these countries, (24.2 per cent in 2011). This is mainly due to the orientation of the three major players in these markets, (EFG Factors 85.5 per cent, HSBC 98 per cent and ABC Factors 92.4 per cent. The smaller companies have a comparatively lower geographical concentration (Ethniki Factors 65.4 per cent, Piraeus Factoring 48.8 per cent, Marfin Factors & Forfaiters 26.6 per cent and Bank of Cyprus 49.9 per cent).

The issues which affect a firms' decision to consider export factoring include: the need to reduce credit risk, liquidity reasons, reduction of accounts receivables management costs, (especially for international clients), prompt payment to suppliers so the seller can take advantage of the added benefits of prompt payment discounts and improve his credit standing with suppliers, lower administration costs, given the buyers' portfolio is managed by the factor, (outsourcing philosophy), lower collection costs. Quantifying the importance of each reason is difficult and pointless because each client company has its own distinct characteristics (financial structure, strategy, market conditions etc) and their needs will vary depending on economic conditions. Empirical studies carried out abroad show that the factoring client's main aim is to minimize credit risk and to a lesser extent, to improve liquidity or management of their accounts receivables needs.

Financial Analysis of the Greek Factoring Market

Consolidated industry figures only relate to the five independent factoring companies and do not include bank divisions as the latter do not publish detailed data on their factoring operations. Total revenue in 2009 had decreased by 31.8 per cent and then showed an impressive increase of 34.8 per cent in 2010 and 41.8 per cent in 2011.

Performance indices are at very satisfactory levels, especially when taking into consideration the severity of the economic crisis affecting Greece. For 2011 return on equity is 18.5 per cent, (14.4 per cent in 2008), gross margins declined, (to 36.6 per cent from 58 per cent in 2010) while the net profit margin, (net profit before tax / total revenues), despite a significant reduction, (36.6 per cent from 47.2 per cent in 2010), is still remarkable considering the severity of the current crisis.

Structural indices are continuously improving and in 2011 all companies are at satisfactory levels. The equity/total liabilities ratio is constantly improving and reached 13.9 per cent in 2011 from 9.5 per cent in 2008. The capital adequacy ratio is high at 18.5 per cent with three companies above the 20 per cent mark, (EFG 26.2 per cent, ABC 21.9 per cent and Piraeus 20.4 per cent). According to the consolidated balance sheet, 0.19 per cent of turnover and 1.08 per cent of total accounts receivables are in arrears while the non performing loans projection stand at 1.23 per cent. The average International Factoring accounts receivables share was 11.9 per cent, albeit with large differences from company to company, (Marfin 35.2 per cent, EFG 14.5 per cent, ABC 7.7 per cent, Piraeus 6.4 per cent and Ethniki 2.4 per cent).

Problems - Future trends

Export factoring is one of the few financial activities in Greece that exhibits positive trends in today's severe and ongoing economic crisis. Factoring can mitigate problems of international trade, especially those faced by small and medium-sized enterprises. Such problems include decline in domestic demand, lack of liquidity, increase in high-risk debts and lack of access to credit lines. All these problems can be tackled efficiently through factoring, (domestic or export), which offers numerous advantages. Some of the most important benefits of export factoring include: immediate financing, diminishing collateral needs, financing of sales ensuring uninterrupted liquidity, increased bargaining leverage with creditors and clients, on-going monitoring of existing clientele and evaluation of prospective customers, improved collection of accounts receivable and liquidity, improved management of the ledger account which decreases operational costs, protection against customers' defaults and last but not least, credit risk. In addition factoring (non-recourse) improves the client company's credit rating and financial ratios since it is not treated as a liability. Export factoring allows for the provision of extended credit periods to clients, while providing absolute protection against customer defaults. Moreover the exporter is able to finance invoices, decrease the financial cost by avoiding the use of letters of credit, and get paid within the 90-day default limit. Through the use of the two factor system, the corresponding factors are able to communicate in many languages, offering a competitive advantage for exporters who require excellent communication with their clients. Likewise, the correspondent factoring companies offer specialized services with regard to the legislative framework of their own country.

Extroversion is probably the only answer to declining sales in the domestic market. Factoring is a financial tool that can provide a great boost to any company's outward orientation, providing access to foreign markets and improved business terms with customers and suppliers.

The Greek economy presents a rather disappointing extroversion profile, which in many cases is similar to those of underdeveloped and Third World economies. Thus there is a lot of room for improvement in this area given that domestic productivity will respond to an increased demand. Economic extroversion has improved substantially (mainly due to increased exports rather than a reduction in GDP), from 9 per cent in 2009 to 13 per cent in 2011 and a prospective 15 per cent for 2013. By dispersing risk to countries with stable economies, both the accounts receivable turnover ratio and the inventory turnover ratio can be improved, and debt delinquencies can be decreased. According to recent research on Greek businesses (Atradius, 2012), only 10.9 per cent of international sales receivables' carry a 60-day plus credit limit (compared with 28.3per cent for domestic sales). Delinquencies from foreign debtors are down to 17.6 per cent (compared to 41.1 per cent for domestic sales), while the percentage of non-collectable receivables after 6 months is merely 2 per cent of sales, (compared to 7.4 per cent for domestic sales).

Due to the different credit approach, whereby factors are more interested in the creditworthiness of clients' accounts receivable portfolio rather than the health of the actual client, those clients with "unhealthy" balance sheets can still be financed, whereas banking institutions would reject applications for loans from such companies. While the aforementioned advantages are expected to boost the use of factoring by small and medium- sized businesses, the growth of international trade will provide an additional positive impact on the sector, especially due to increased demand by developing countries.

According to an HSBC-Delta Economics report, the short-term prospects for international trade are positive while the long-term ones are excellent. The annual growth rate of international trade is projected to be 3.7 per cent until 2017, while for the five-year period after 2017 an acceleration with a mean annual growth of 5.9 per cent is projected.

One positive aspect for Greece is that international demand will be higher for products which are already produced in our country, and which enjoy a certain competitive advantage. Industries including: chemicals, car manufacturing, oil trade, and electronics will face an economic downturn whereas others including electricity production, packaging materials, logistics, metal products, food production, telecommunications and pharmaceutical products will experience growth.

The only possible problem that could impede the growth of export factoring could be the lack of liquidity within the Greek banking system and the resulting drought in funding. Credit risk was at a record level high in 2008 but is now back to normal levels, which does not affect profitability forecasts for factoring companies.

In today's volatile conditions, projections for the export factoring industry can only be made with a high degree of uncertainty. However, if we assume that the current crisis has run its course and there will not be any further deterioration in the financial situation, then there are several reasons to believe that factoring will enjoy positive growth rates including the projected growth of international trade, the call for business extroversion (due to low domestic demand) and the need to overcome liquidity problems and credit risk issues, which will certainly be apparent for the next couple of years.

The parameters used for the three projected scenarios are: businesses' liquidity, level of penetration in the economy, export projections for the four mature export markets (where Greece had a mean penetration of 28 per cent for 2011) and for the remaining export markets where growth is more promising (where we had a mean penetration of only 1.87 per cent).

In order to quantify business liquidity we have used the ratio, accounts receivables/total assets (AR/TA) since, according to recent research, this is the defining measure in the decision to use factoring. We have used data for the last five years and we found that for any 10 per cent change (increase/decrease) in the ratio AR/TA, there is a similar change in sales of 3.9 per cent.

Conclusions

Export factoring is one of the fastest growing industries, and it can have very significant, positive effects on business extroversion, enhanced liquidity and decreased delinquencies. Apart from the obvious advantages that can be offered to a wide array of companies, factoring is also a useful financial tool that can facilitate national economic growth and improve national competitiveness.

Export factoring services are offered by all Greek factors even though concentration exists as discussed earlier, both in terms of those factoring companies offering the service and destination markets. Similarly, there is outstanding growth recorded for export factoring at an international level, (mean annual growth 30.5 per cent in the last decade due to the increase in international trade and escalating credit risk). Europe is the largest market since it accounts for 70 per cent of international factoring, (export-import). However, in recent years there has been an impressive growth in international factoring in Asia, (mainly China).

Both the short and long-term prospects of the sector are positive. Those features that indicate growth for the factoring industry include substantial growth in international trade, the need by Greek SMEs for continuous growth in export activities and the positive demand in international markets for Greek products.

On a macro level, there are serious problems and threats due to the tragic failure of Greece's old economic model. However, the current crisis might have a profound influence on the birth of a new more dynamic, modern and innovative economy. The magnitude and complexity of the current crises, (economic, political, social), will demand a transformation to a more productive and extrovert economy. In this light, there will be several opportunities for growth in export activities and hence prospects for equivalent growth in the export factoring market.

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